

KPMG, Inc. work with City of San Diego

2003 CAFR

KPMG Contracted By City of San Diego

- City Council meeting of 12 April 2004.
- Council authorized contract not to exceed \$500,000
- “KPMG has been determined to be the only firm capable of providing the necessary services in a timely fashion at the least cost.”

KPMG Letter of Engagement

- “KPMG estimates that the cost of all services to this engagement will be approximately \$700,000 to \$800,000.”

First Amendment to KPMG Contract

- City Council meeting of 12 July 2004
- Council approved additional \$300,000 for a total contract amount not to exceed \$800,000.

KPMG provides questions for Vinson & Elkins

- KPMG issued letter to City on 9 August 2004.
- “As indicated in our engagement letter dated April 13, 2004, we will not issue our auditors’ report until a determination is made that the investigation being conducted by Vinson & Elkins is sufficient and complete.”
- Letter included American Institute of Certified Public Accountants § 317, “Illegal Acts By Clients”

KPMG discounts Vinson & Elkins

- On 11 October 2004, KPMG issued a follow up letter discounting the work of Vinson & Elkins.
- “The report based on such an investigation must include clear conclusions and be supported by a thorough investigation.”
- “However, as stated above, and as KPMG has been advised, the V&E report was not conducted as a forensic investigation, and did not result in a report that reached clear conclusions about whether federal securities laws had been violated....”

KPMG requests a different firm for investigation

- In a letter date 29 October 2004, KPMG stated it will not “complete an audit of the 2003 financial statements unless the City completes an independent investigation of potential illegal acts as we have outlined in our prior correspondence.”
- “If the City is prepared to proceed with an appropriate investigation, then we urge you to consider retaining counsel other than V&E to do so.”

City approves third KPMG contract amendment

- City approved third amendment to KPMG contract at 23 November 2004 meeting
- An additional \$500,000 for total not to exceed \$1.7 million.

City approves fourth KPMG contract amendment

- On 28 February 2005, City approved fourth amendment to KPMG contract
- Council approved an additional \$500,000 for an amount not to exceed \$2.2 million

City contracts Kroll

- “[R]eceive, review and evaluate the findings of the investigations by V&E and the City Attorney.
- Contract later expanded on 8 March 2005 to serve “as the Audit Committee as contemplated by the Sarbanes-Oxley Act of 2002.”

KPMG pressures City to pay for Willkie Farr & Gallagher

- KPMG sent to City on 29 April 2005.
- “KPMG believes that it is important to the resolution of the outstanding issues that the City Council authorize, to the extent it has not already done so, Messrs. Turner, Levitt, and Dahlberg, as the duly constituted Audit Committee of the City, to take any and all actions they deem necessary or appropriate to satisfy their obligation under the terms of their retention by the City of San Diego, including the retention and payment of independent legal counsel and/or any other expert or consultant they deem necessary to the completion of the Audit Committee’s mandate.”

KPMG pressures City to pay for Willkie Farr & Gallagher

- “We believe any action by the City or any officials limiting the Audit Committee’s ability to timely or completely execute its obligations could raise serious concerns about them, if at all, KPMG would be in a position to complete its audit procedures and issue a report.”

City Council approves fifth KPMG amendment

- On 28 June 2005, the City Council approved the fifth amendment to KPMG contract.
- “[A]n amount not to exceed an additional \$200,000...for a total contract amount not to exceed \$2,400,000

City Council approves sixth KPMG amendment

- On 28 June 2005, the City Council approved the sixth amendment to KPMG contract
- “[A]n amount not to exceed an additional \$200,000...for a contract amount not to exceed \$2,600,000 contract award.”

KPMG pressures City to keep Kroll

- KPMG sent letter to City on 5 August 2005
- “We would view any action by the City or any of its officials to limit the Audit Committee’s ability to execute its obligation in a timely and complete manner as reflecting either an inability or unwillingness on the City’s part to complete the independent and thorough investigation that is necessary. We believe such actions would also effectively prevent us from completing the audit.”

KPMG pressures City to keep Kroll continued:

- KPMG also wrote in the letter: “To facilitate a timely review of the investigation and its results, KPMG has been working closely with the Audit Committee in order to help ensure that the investigation, when complete, is consistent with professional standards sufficient for audit purposes.”

KPMG issues another letter in support of Kroll

- KPMG sent a letter to the City on 22 September 2005 supporting the work of Kroll.
- “KPMG continues to believe that it is important to the completion of the independent investigation that Messrs. Turner, Levitt and Dahlberg continue to take any and all actions they deem necessary or appropriate to satisfy their obligations under the terms of their retention by the City of San Diego.”

KPMG issues another letter in support of Kroll continued

- KPMG's 22 September 2005 letter supporting the work of Kroll.
- “To facilitate a timely review of the investigation, KPMG has been working closely with the Audit Committee in order to help ensure that the investigation, when complete, is consistent with professional standards and sufficient for audit purposes.”

Council approves ninth KPMG amendment

- Council approved another increase in payment to KPMG on 8 May 2006.
- “\$1,300,000 for KPMG for monitoring of the Audit Committee and for auditing of the City’s 2003 financial statement, bringing the total to \$4,400,000”

Council approves ninth KPMG amendment

- On 9 January 2007 the City Council approved the ninth amendment to KPMG contract.
- An amount not to exceed \$6.2 million.

Where we are

- KPMG partners
 - KPMG Partners billed a total of \$572,000
 - Bill at a rate of \$400 per hour
 - A total of 1,430 hour worked on 2003 CAFR

Where we are

- KPMG Senior Managers
 - KPMG Senior Managers billed a total of \$2,320,000
 - Bill at \$350 per hour
 - A total of 6,628 hours worked on 2003 CAFR

Where we are

- KPMG Senior Associates
 - KPMG Senior Associates have billed \$907,800
 - Bill at \$200 per hour
 - More than 4,530 hours worked on 2003 CAFR

Where we are

- KPMG Associates
 - KPMG Associates have billed \$382,845
 - Bill at \$150 per hour
 - More than 2,550 hours worked on 2003 CAFR

Where we are

- Total number of KPMG employees
 - More than 85 KPMG different employees have billed the City for work on the 2003 CAFR.
 - Many brought onto the project more than 1.5 years after the work has been under way.

Where we are

- The City has still not received the audit despite the \$10 million spent on Kroll and the \$10 million spent on Willkie Farr & Gallagher at KPMG's direction.
- The City is still unable to access the public markets because 2003 CAFR is incomplete.